



Aalborg Universitet

AALBORG UNIVERSITY
DENMARK

Marketing Systems and Economic Development

An Institutional-Structural Approach

Sørensen, Olav Jull

Publication date:
1984

Document Version
Publisher's PDF, also known as Version of record

[Link to publication from Aalborg University](#)

Citation for published version (APA):
Sørensen, O. J. (1984). *Marketing Systems and Economic Development: An Institutional-Structural Approach*. Institut for Historie, Internationale Studier og Samfundsforhold, Aalborg Universitet.

General rights

Copyright and moral rights for the publications made accessible in the public portal are retained by the authors and/or other copyright owners and it is a condition of accessing publications that users recognise and abide by the legal requirements associated with these rights.

- Users may download and print one copy of any publication from the public portal for the purpose of private study or research.
- You may not further distribute the material or use it for any profit-making activity or commercial gain
- You may freely distribute the URL identifying the publication in the public portal -

Take down policy

If you believe that this document breaches copyright please contact us at vbn@aub.aau.dk providing details, and we will remove access to the work immediately and investigate your claim.

**AALBORG UNIVERSITY
DEVELOPMENT RESEARCH SERIES
WORKING PAPERS**

**AALBORG UNIVERSITETSCENTER
SERIE OM UDVIKLINGSFORSKNING
ARBEJDSPAPIRER**

**MARKETING SYSTEMS AND ECONOMIC DEVELOPMENT:
An Institutional-Structural Approach**

by
Olav Jull Sørensen

NO. 6

1984

**DEVELOPMENT RESEARCH GROUP
AALBORG UNIVERSITY
FIBIGERSTRÆDE 2
9220 AALBORG EAST
DENMARK**

**GRUPPEN FOR
UDVIKLINGSFORSKNING
AALBORG UNIVERSITETSCENTER
FIBIGERSTRÆDE 2
9220 AALBORG Ø**

Content:	Page
1. Marketing - a Key Problem in Economic Development	1
2. Marketing Issues in Theories of Economic (Under) Development	3
3. Marketing Institutions - the Point of Departure	5
4. Division of Labour - the Cradle of Marketing Systems.	8
1. Economic Development Means Transformation of Economic Structures	8
2. Forms of Division of Labour	11
3. Laws Governing the Development of Division of Labour	14
4. Division of Labour Means Dependency	18
5. The Marketing System and Labour Migration	19
6. The Macro Marketing Formula	22
7. Implementing the Theoretical Framework	24
1. Drawing Marketing Maps	24
2. Establishing a Profile of the Users of the Marketing System	26
3. The Planning and Administrative Set-Up.	30
8. Summary.	33

1. Marketing - a Key Problem in Economic Development.

The concept of marketing - in the context of economic development - has a macro or systemic content, i.e. we speak of marketing systems. The marketing system is part of the economic coordination system in any economy divided by labour, and further, as economic development means transformation of the economic structures and particularly an increase in the division of labour, the marketing system becomes more and more important in the course of development with the marketing system itself contributing to this development.

The development of marketing systems is, however, not the key issue in economic development, but the system often gives rise to crucial problems.

The key issue is how to increase productivity and production, and this question as well as why the increase did or did not occur, is dealt with in numerous theories of economic (under)development, radically as well as orthodox in nature. The abundance of development formulas, derived from these theories, contrasts, however, sharply with actual economic performance of the developing countries.

In case of marketing, the situation is different. Here the lack of theories of marketing system development contrasts sharply with the abundance of marketing problems. Whether you read newspapers, reports from fact finding missions or research reports, the overall picture is the same, the economic infrastructure is of modest standard, the marketing institutions are inefficient, and Governments "streamline", "introduce sterner measures", and reorganize the marketing system almost erratically.

This paper is an attempt to improve the situation. By creating a conceptual and theoretical framework for the understanding of the role of marketing systems in economic development, it is hoped that we can move a few steps closer to actually formulating policies and plans for the development of marketing systems.

This is an ambitious task for a relatively short paper, but the idea is to present a total framework, which then will have to be treated in more details subsequently. More specifically, the aim of the paper is:

1. To integrate marketing thinking with the at present primarily production oriented economic development theories, so that we in the end will have a production-marketing theory of economic development.
2. To give an idea of how the theoretical framework can be implemented, the output being a marketing policy and plan.

The paper suggests the analysis of marketing systems in economic development to commence with a study of marketing institutions. The reason: Marketing institutions perform the marketing functions, part of but so poorly developed in orthodox economic development theory. At the same time, marketing institutions link various groups and classes economically, and they are, therefore, central to the concepts of power and power struggle in the radical theories of economic (under)development. By departing our analysis in the marketing institutions, we are able to "unite" essential points from orthodox as well as radical theories of economic (under) development.

Further, economic development is looked upon from the point of view of "transformations of the economic structures". By interpreting these transformations in terms of changes in "the division of labour", the functional tasks of the marketing system appears, as the basic role

of the system is to "link" what division of labour has "parted". Thus, the concept of "institution" and the concept of "division of labour" form the foundation upon which it is proposed to develop a theory of marketing systems in development.

2. Marketing Issues in Theories of Economic (Under) Development.

Marketing issues apart from price considerations are hardly treated in orthodox economic development theories.¹⁾ Increasing supply and matching supply and demand are essential issues, but it is normally assumed that supply and demand match instantaneously, and the crucial marketing problems of separations of supply and demand in time, space, and ownership as well as the incorporations of the marketing functions into institutions are ignored.

This might be acceptable in an predominantly subsistence economy, but in economies with a wide or increasing division of labour (separation of producers and users), scattered production (space) and timely differences in production and use, it is essential to integrate marketing issues with economic development theories.

Oversimplified, one might say that orthodox economic development theories are preoccupied with separating the economy, but do not give proper consideration to how to tie or link it again.

In radical theories or political economy, the situation is different. In principle, the marketing system is not important. The marketing system belongs to the sphere of circulation and the marketing system is, thus, the place where the surplus, created in production, is realized. The marketing system is necessary to realize a surplus, but as exploitation takes place within production, the focal point of radical theories is production.

In actual radical studies of for example semi-subsistence economies, the marketing system plays, however, a more important role. The point of departure is, that economic development requires economic resources and as agriculture is the dominant economic sector, a surplus must be extracted from the rural areas to finance development. Further, as the labour and capital markets are non-existing or poorly functioning, the marketing system becomes the means by which to extract a surplus for economic development. If this surplus-extraction-necessity-thesis ²⁾ is combined with the focal point of radical theories, the power struggle among different groups and classes, it appears that the marketing system, and more specific the marketing institutions become the centre for the struggle of control over surpluses, extracted from rural areas for developmental or other purposes. ³⁾

Both orthodox and radical theories of economic development thus view the marketing system as a socio-economic coordination system. The former emphasizes commodities but ignores essential marketing functions and the institutional arrangements, the latter focuses on surpluses, derived from the flow of commodities.

Formulated into marketing functions, the orthodox view of a (semi)market-economy assumes production to be subordinated consumption and the four basic marketing functions are:

1. To reveal/uncover consumption needs and communicate them to the point of production.
2. Transform the information into product formulas.
3. Allocate the produced goods among the users/consumers.
4. Distribute the produced goods to the users/consumers.

Following the radical view of the same economy, the main point is surplus extraction, and the functions of the marketing system can be described as follows:

1. Uncover/reveal surplus extraction possibilities.
2. Transform the possibilities into product formulas and channels for surplus extraction.
3. Persuade/manipulate producers to produce/sell or/and users to buy the goods.
4. Distribute the produced goods.

The functions are formulated in such a way that those receiving the surplus can be the producers themselves - in that case we speak of profit - or it can be a social group 'outside' the producers and end users, e.g. a state class. In that case we speak of exploitation.

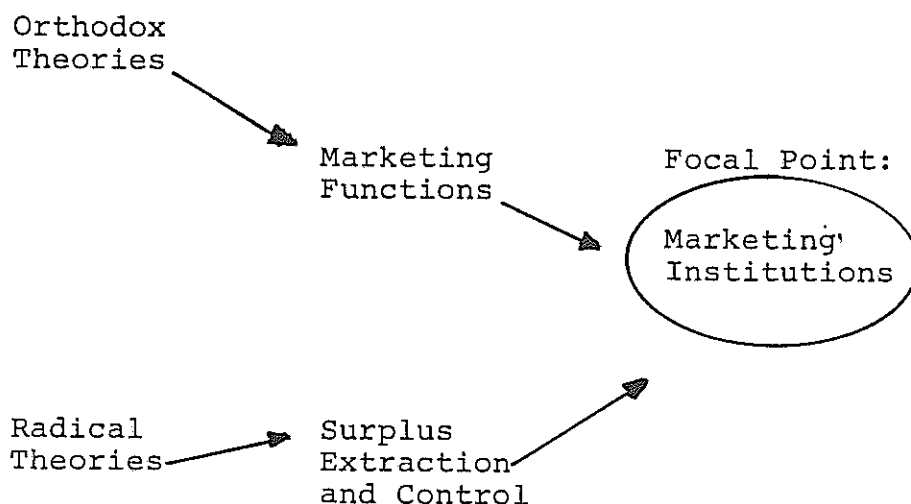
3. Marketing Institutions - the Point of Departure.

From the last section, it appeared that orthodox theories to a large extent ignore marketing functions as well as the marketing institutions, carrying out the functions. To bring marketing issues closer to orthodox thinking, it seems, therefore, appropriate to analyse marketing institutions, emphasizing their functional content and performance beyond that of simultaneous supply-demand matching.

At the same time, it appeared that radical theories emphasize control over marketing institutions in order to reveal any surplus extraction and that the commodity flow is a means to that end rather than being an end itself.

To grasp both the functional/economic content and the political control aspect of marketing systems, an appropriate point of departure, thus, seems to be the marketing institutions, (see figure 1).

Figure 1: The Marketing Institution in Focus.



Looking more closely at the marketing institutions, three things characterize them:

1. The marketing institutions represent the dominant values in society.
2. The marketing institutions reflect the power structure in society.
3. The marketing institutions perform the marketing functions.

Institutions or the institutional approach might be discussed on a rather abstract level, but as we deal with a definable empirical world - the movement of goods - we might as well specify the relevant institutions, the private firm, the co-operative and the state trading organization or any combination of these principal forms to handle the physical flow of commodities. To these can be added various planning and control institutions like "a marketing development bureau", "price control units", "co-operative development office" etc.

These as well as institutions responsible for economic infrastructural development are normally part and parcel of the state administrative apparatus.⁴⁾

At the time of independence the marketing system in most developing countries was dominated by private firms and the new Government faced the task of deciding whether to live with it, sincerely develop it, or unwind the private marketing system and establish new institutions:

The rational decision maker would tackle this problem by defining the development strategy and then define the most efficient set-up of the marketing system, including the type of institutions to establish.

This is not how it can be done in practice. Here the institutional choice comes before efficiency. The institutional choice is an intricate mix of generally held values, established over many years, and the interests of the dominant groups in society. In other words, you cannot choose a marketing institution which violates to the extreme the basic values among the common people and at the same time you cannot choose marketing institutions which do not serve (to some extent) the interests of the dominant economic group(s).⁵⁾

It is, however, difficult to choose institutions in a developmental setting for two reasons: 1) Almost per definition, values are in a flux in a development situation, especially, one could add, when former values were forced upon the people from outside. 2) Further and again almost per definition, as a continuous struggle goes on, it is unclear who is the stronger political-economic group. Many resources will be used in the struggle for specific institutions, often with the result that none is left to tackle the efficiency issue. This must be part of the explanation why marketing institutions are often found to be inefficient. Accepting, however, at the outset that a struggle over the mar-

keting institution does take place and from time to time overshadows endeavours to make the institutions work more efficient, it should, I believe, be easier to run the institutions efficiently or at least give a clear understanding of where the defaults are - political unacceptability rather than functional inefficiency.

4. Division of Labour - The Cradle of Marketing Systems.

4.1. Economic Development Means Transformation of Economic Structures.

Turning now from 'what society is' - people with values and vested interests embedded in various types of institutions - to the changes in the material base of society to accomplish economic development.

From a marketing system's point of view it is not very helpful to look at economic development measured as an increase in GNP or similar measures of the level of economic performance. This is not to ignore the fact that an increase in income has a tremendous impact on the marketing system and that income, therefore, belongs to 'the macro marketing formula' alongside other dimensions which we shall return to in section 6. But income is not the cradle of marketing systems. The cradle can be found by looking at economic development as a transformation of economic structures.

There is no unanimous agreement as to what constitutes the optimal structural transformation or even the best way to achieve a transformation for development. Some suggest the establishment of an industrial base and especially the production of investment goods; others propose a withdrawal from the world market or the oppo-

site: a heavier integration into it. Others again suggest to develop the rural areas etc.etc.

One common denominator of all development strategies, however, is an increase in the domestic division of labour, i.e. increased specialisation in production.⁶⁾

It is, e.g. widely held that to have economic development, the peasants must be integrated in the wider national (or international) economy and thereby become dependent on the marketing system for their 'buying of inputs, selling of produce and buying of manufactured goods.

This is true even when we speak of 'self-reliance strategies'. Self-reliance does not mean going back to full subsistence. In essence it means a better controlled integration into the wider economy, one which assures national strategic interests as well as a diversification of economic activities, which support each other and thereby form an economic base for development.

Already in 1776, Adam Smith emphasized an increase in division of labour as a means to further economic growth, and his growth formula seems more than ever relevant (although too simple for direct implementation). The formula can briefly be described as

DIVISION OF LABOUR \longleftrightarrow TECHNOLOGICAL DEVELOPMENT⁷⁾ \implies

ECONOMIC GROWTH.

Having now established a relationship between economic development and division of labour by way of the concept 'transformation of economic structures', the next step is to point out the relationship between division of labour and the marketing system.

This is obviously not difficult. With an increase in division of labour, gaps are created in the economy between producers and users, and it is the primary purpose of the marketing system to close these gaps (and a dynamic marketing system will also create new gaps, i.e. further the division of labour).

In essence, then the purpose of the marketing system is to 'link' what division of labour has 'parted'. Division of labour can, therefore, be said to be the cradle of marketing systems, and as division of labour is also closely linked with economic development, we have established a relation between the marketing system and economic development - on the general level.

Although we have appointed 'division of labour' to 'lead' economic development and the marketing system to follow suit and close the gaps left in the process, the marketing system need not 'just' have an adaptive role to play. It might also have a dynamic one.

An adaptive role means that the marketing systems react to changes in production and consumption. As economic development theories as well as actual plans are production oriented, the adaptive role has been the typical one. And judging from the little attention paid to marketing issues in development plans it is even assumed that the adaptation is more or less automatic.

The dynamic (or aggressively manipulative) role, i.e. the marketing system as a change agent, is well known from Western marketing theories and practices where demand and perhaps even needs are created by way of marketing activities.

Marketing systems in developing countries can be given the same dynamic role and thereby contribute to an increase in specialisation. An example would be to promote an increase in agricultural output following 'the consumer goods thesis'. This states that by making con-

sumer goods (collective or individual ones) available to the rural population, the peasants will be motivated to find ways of improving their production techniques in order to increase output and thereby income.⁸⁾

With this conceptual apparatus, the next questions are, what forms of division of labour exist; which laws govern the development of division of labour; and how can we plan and implement the plan for the development of the marketing system.

These are rather comprehensive questions which cannot be fully answered here. In practical terms it means that when the overall development strategy has been mapped out, the strategy is interpreted in terms of division of labour, and this interpretation again forms the basis for drawing 'a marketing map' of the envisioned society. (See further section 7.1).

4.2. Forms of Division of Labour.

In subsistence economies and also to a large extent in peasant economies today, the division of labour is predominantly one based on sex and age. These forms do not give rise to much marketing activity as they are what we will term an intra-unit-division of labour, i.e. specialisation takes place within an autonomous and self contained unit as against inter-unit-division of labour which requires transactions (in time, space and ownership) between autonomous organizations.

When division of labour increases and becomes nationwide, we can distinguish between 4 forms of division of labour, each with a different consequence for the marketing system. The four are:

1. A vertical division of labour.
2. A horizontal division of labour.
3. A spatial division of labour.
4. A social division of labour.

The vertical division of labour is the one we normally think of, when the term division of labour is used. It is the one we observe when peasants, who bring up poultry for their own consumption, are replaced by farmers forming the first link in the chain:

FARMERS → SLAUGHTERHOUSE → BUTCHERS/SUPERMARKETS →
CONSUMERS

Each time a link is added to the chain, a gap is created and marketing activity is needed to close the gap. The crucial question is what governs the increase in the number of links. We shall shortly return to that question.

The horizontal division of labour has two dimensions, a competitive dimension and a product differentiation one. Horizontal division of labour takes place on a specific level in the chain of production. If more producers produce the same commodity, they are competitors and depending upon whether they face a buyer's or a seller's market, they will undertake much, respective less marketing activity to sell the goods. Thus, marketing activity is clearly related to the degree of competition, although not in a straightforward way (Sorensen, 1983b).

Instead of producing the same product, e.g. a specific type of hoe, the producers might differentiate their products (in a competitive situation, for example in order to lessen competition) and this again will create more marketing activity and a need for a more diversified marketing system.

Thus, the horizontal division of labour might tend to add quantitatively to the marketing system, but more likely, it requires qualitative changes to handle the differentiated supply of products.

The spatial division of labour gives 'a measure' of the dispersion of producers and consumers/users respectively. At one extreme, we might have a situation where a monopoly buyer faces a monopoly seller and very little marketing activity is needed. In contrast, we have widely scattered small scale peasants in many developing countries confronting more concentrated consumers in the urban areas with little buying power and low outreach. . Adding the perishability of the commodities, it is obvious that closing the rural-urban food gap is a tremendous challenge to the marketing system.

Finally, we have the social division of labour. This connotes a division between those who decide and those who execute. It is, thus, related to the power structure of society and thereby the control over the marketing institutions. As this was discussed in section 3, we refer to that section.

From this typology and brief discussion of the concept of division of labour it appears that the concept is useful in grasping the overall quantitative as well as qualitative aspects of the marketing system in a country. What remains to be done is to develop means of measuring the degree of division of labour and transform these measurements into marketing system dimensions.

This is relatively easily done when you know the development strategy and have a development plan to depart from. Then you "just" interpret the strategy and plan in terms of division of labour. This, however, is not good enough to establish a general theory of marketing systems' development. To gain a few steps towards that goal, it is necessary to take a closer look at the "laws" governing changes in the division of labour.

4.3. The Laws Governing the Development of Division of Labour.

The concept of division of labour has not been central to theories of economic development since Adam Smith formulated his economic growth formula. In the words of Shumpeter "...nobody, neither before nor after A. Smith, ever thought of putting such burden upon division of labour". (Shumpeter 1954, 9. 187). All we can do is, therefore, to present various views on what determines the change in division of labour without putting these views into a development setting. The views on division of labour might be thought of as being on a scale where we have "technological-economic explanations" in one end and "socio-political explanations" in the other.

Briefly stated the theories are as follows:

1. The Law of Economies of Scale.

Labour is divided, because by doing so, labour productivity will increase. This is the basic point of view, held by Adam Smith. (Stigler 1951). We need not repeat his famous pin example, but we do have to point out that although what we might call simple division of labour, is what we remember Adam Smith for, this is not one of his most important theses. The simple division of labour is looking at division of labour from a quantitative point of view, but Adam Smith saw the qualitative aspects of division of labour as much more important. He pointed out that by means of the simple division of labour, new technologies would be developed/unfold, and this qualitative change again gives rise to quantitative ones, etc.etc. Thus, economies of scale is exploited by specialization. It is an ongoing process with specialization and technological development enforcing each other. The only restriction in this process

is the size of the market⁹⁾ and we can therefore say that this theory is supply or technology driven but demand restricted. The task of the marketing system is to expand the market, e.g. by exporting, in order to further the exploitation of economies of scale.

2. The Theory of Comparative Advantages.

The theory of comparative advantages states that trade will occur in commodities in which a country has a relative advantage as to factor costs, assuming a demand for the commodities in the foreign countries.

This is basically a static theory (unlike the theory of economies of scale). Following that theory, we must compare the factor endowment in various countries, and from this comparison deduce the commodities to be sold abroad. The theory can, therefore, in principle be used to point out the channels of distribution to be established.

The static nature of the theory is its Achilles' heel and various attempts have been made to overcome the problem. The problem is not that one country is superior as to labour productivity in all areas of production, but the problem is that the market structure is different in the various markets. If the markets in which, for example, Western countries are superior, are concentrated and monopolized, whereas the markets in which the developing countries are relatively superior, are characterized by many suppliers and a production capacity which exceeds demand, then prices will fall in the latter case, and rise in the former, with an overall tendency for foreign trade to fall. The theory of comparative advantages must, therefore, be supplemented with an analysis of the market channel structure. Division of labour following this theory is supply driven, but it assumes implicitly a demand for

the commodities in which a country has the largest relative advantages. It is the task of the marketing system to create such demands and "assure" a structure of the market which does not restrict trade.

3. The Theory of Transaction Costs.

This theory states that changes in division of labour are not caused by economies of scale arguments, but should be understood by looking at the conditions of transactions. It might be said that the conditions of transaction in a market economy slow down the process of division of labour as it is foreseen in the theory of economies of scale.

The marketing system, thus, put restrictions on the division of labour rather than being a system which further specialisation. The reason for this, as Williamson (1974) sees it, can be found in human factors, namely "bounded rationality" and "opportunistic behavior" on part of the market participants.

In short, Williamson claims that marketing systems are not developed by the exploitation of economies of scale, derived from specialisation + technological development, but is determined by transactional considerations which might work against exploiting economies of scale and thereby work against an increase in division of labour. His theory relates to market economies only, and his findings cannot, therefore, be applied to centrally planned or even programmed economies without redefining "bounded rationality" and "opportunistic behavior" in these economic settings. Division of labour following this theory is transaction driven.

4. Theories of Social Control.

It seems obvious that no one will establish a division of labour which is detriment to their control over their property. In other words, a factory owner will organize his factory in a way which renders him the full control

over his equipment and buildings.

On the social level, the same reasoning - although more abstract - seems to hold: Those in power will tend to organize the relations of production in such a way as to stay in power.

How will this power point of view influence the degree of division of labour ?

A thesis would be that the power struggle will tend to overdo the intra-unit-division of labour and eliminate the inter-unit-division of labour (Marglin 1978).

By overdoing the intra-unit-division of labour, the labour force is prevented from understanding how the various elements fit into the whole. In other words, they are prevented from taking over the unit, because they cannot run it themselves. They have become dependent upon another social group, e.g. the managers.

By eliminating the inter-unit-division of labour, a more atomistic social division is turned into a more concentrated one which is easier to control. This is the case when scattered peasants are organized into co-operatives, i.e. a restriction on the horizontal division of labour, or when a three or four layer marketing system is changed to a one or two layer system by substituting private traders with a state trading organization, reaching from the farm to the final user. Following this view, we can say that the division of labour is politically driven.

Of these four views the strongest seem to be the first and the last. I.e. we must understand the present division of labour as well as the future one from understanding the complex interrelationship between the exploitation of economies of scale by means of specialisation and the endeavours exercised by the people in power (or struggling for power) to stay in control of development.

This interrelationship might take place in two principal ways:

1. The dominant classes might ignore economies of scale and decide directly the type of division of labour which fit their control requirements.
2. The dominant classes might let the forces of production unfold to exploit economies of scale, but exercise control over the transactions, i.e. they control the marketing system.

As can be seen, the present stage of "the theory of division of labour" cannot carry us a long way towards a theory of marketing systems development, but at least it gives us what to look for, when we face a specific development situation.

4.4. Division of Labour Means Dependency.

Increasing division of labour means a quantitative increase in the marketing system and a qualitative increase in its role in society. The higher degree of division of labour the more sensitive is the economic system and a break down in one part of the marketing system will have severe consequences for other parts. Unless buffer stocks are established, a break down will easily resemble a steppe fire.

In short, division of labour means not just economic development, but also social dependency, and it is only logical to demand some assurance of reliability of the marketing system, if you involve yourself in a wider division of labour.

A good case in point is the attempts to integrate the peasants in many developing countries into the wider national or international economy. The peasants are claimed to be 'backwards, lazy, traditional etc.', if they resist changes in their farming practices. From our knowledge, so well documented in numerous reports, of the working

of the rural marketing systems, it seems highly justifiable, that the peasants resist getting involved in the wider economy. Their experiences tell them, that at least one if not all of the three channels, linking the rural areas with the outer world (the channels for inputs, produce, and consumer goods) is not reliable. And if reliable this year, it is not reliable the next year. If we to this functional unreliability add the potential risks of extraction of surplus from the rural areas, it is more than easy to understand, that peasants are unwilling to accept an increase in the division of labour and thereby become dependent on the marketing system.

Reliability more than quantity of commodities and sophistication in marketing techniques is the key issue for the marketing system both in an economy with a high degree of division of labour and an economy with a low level but a rapid increase in division of labour, and thereby an increase in interhuman dependency of the unpersonalized type. (Sorensen 1983a).

5. The Marketing System and Labour Migration.

Section 2 and 3 discussed, how attempts to control surplus extraction could influence the set-up of the marketing system. In this section we will discuss, how another factor of production, namely labour migration might influence the organization and the working of the marketing system.

It is obvious that a transformation of the economic structures requires sectorial changes and the relocation of the labour force and it is well known that it is difficult to have a smooth transfer of labour. The typical picture in many developing countries is underemployment in rural areas, direct unemployment in urban areas and a large number of people in petty economic activity in the urban areas, forming a so-called 'informal urban sector' to which large part of the marketing system belongs.

From there observation it appears that rather many - and some claim too many - people are employed in the marketing system, especially in cases where private traders dominate. Several attempts have, therefore, been made to explain the number of traders in marketing systems in developing countries.

The Economic Growth Explanation. This explanation (known as the Clarck-Fisher Thesis) states, that the employment in trade grows relatively to that of other sectors in the course of growth.

Preston (1968 and 1970) found that:

In the income interval of \$100-500, the ratio of commercial workers the total labour force increased liniarly from around 5% to 10%.

In the income interval \$500-1000, the ratio increased less and levelled off between 14-15% for higher incomes.

The Structural Explanation. In many developing countries one can observe a demographic relocation of people, i.e. an increasing part of the population living in urban areas without a concomittant economic growth. As agricultural as well as urban productivity does not increase, the result is, that whatever little surplus food available must be fetched from the more remote areas. This again requires an increase in the total employment in the marketing system and the costs of marketing measured as a share of the urban food price increases.

The Factor Substitution Explanation. Bauer and Yamey (1951) offered this explanation. They claimed the many traders to be caused by an efficient allocation of scarce resources, i.e. capital and management capabilities are allocated and used to establish an industrial sector, whereas labour is used in sectors e.g. the marketing system, which can function efficient without large inputs of these scarce resources.

The Exploitation Explanation. This explanation sees the informal sector and thereby large part of the marketing system as a functional addendum to the so-called modern sector. Without the informal sector, characterized by small undertakings, which barely sustain the owner a living, the inefficient modern sector would not be able to survive. I.e. there is an exploitative relationship between the modern sector and the informal sector. (Moser 1978).

The Stepping Stone Explanation. The stepping stone explanation sees the informal sector and especially retail trade as a temporary economic platform for labour moving from one economic sector, predominantly the rural, to another, e.g. the modern urban sector. Due to the easy entrance, urban retail trade is well suited for this purpose and does in fact function as a social security system, while people wait for a job in the modern sector.

The Collusion Explanation. The marketing system and especially the food marketing system has time and again been tested for its efficiency, using the well known 'perfect market model' as the scale. Collusive practices in the form of entrance restrictions, market or supply sharing arrangements etc. are often found, not with the normally expected result, that fewer traders share the profit, but the exact opposite, the marketing system sustain a living for too many traders, each of which is underutilized.

The common denominator of all these explanations is, that we expect to find many people employed in the marketing system of developing countries.

If the economy grows, relatively more are employed in the marketing system compared to other economic sectors. This we can explain by referring to the section on division of labour and its direct bearing on the marketing system. We can also explain it by referring to the sub-

stitution thesis, which states that the labour productivity increase in the marketing system is lagging that of other economic sectors, primarily industry.

But even in cases with no economic growth the marketing system is somewhat "overcrowded" for non-economic as well as economic reasons. Labour migration from the rural to the urban areas requires more people to carry out the marketing functions and as the migrated labour cannot find jobs in industry etc. a good portion of them will enter retail trade, and perhaps by means of collusive practices try to dampen competition to make a living for more people than economically necessary to carry out the marketing functions.

Thus, the marketing system gets its share of the problems involved in transferring labour from one economic sector to another. The explanations clearly show, that we do not face a simple efficiency question, but observe human survival crossing swords with marketing efficiency.¹⁰⁾

6. The Macro Marketing Formula.

Cutting across the preceeding sections, we can summarize the discussion by way of presenting a Functional Macro Marketing Formula. It appears that the

Marketing = f (1. Specialization, i.e. vertical division
System of labour,
2. Dispersion of production and consumption,
3. Competition, i.e. horizontal division
of labour,
4. Income, and
5. Population Demographics).

Income was only briefly discussed in section 5, where the relationship between income and marketing employment was shown. Income has, however, also qualitative influences upon the marketing system. It is well known, that the composition of goods, the consumers buy chan-

ges from food towards non-food, when income increases. Further, if the income distribution is skewed, the marketing system will tend to break into a dual marketing system, i.e. a modern and a traditional one.

Population has not been discussed and we will restrict ourselves to mention, that the composition of people, including age distribution and educational level, certainly will influence the marketing system.

This is the functional marketing formula. If we to it add 6. the social division of labour as well as 7. the labour migration issue, we have the Social Macro Marketing Formula.

These are the seven major social dimensions, which determine the role of the marketing system in economic development. One or more of these dimensions are also an integrative part of many economic development theories as well as strategies. We are, therefore, able to calculate the consequences with respect to the marketing system, when the theory or strategy is given. Further, we have established a conceptual framework which when worked out in more details can be more directly integrated with general economic development theory.

7. Implementing the Theoretical Framework.

The theoretical framework, developed in the preceding sections, does, as pointed out, not aim at establishing the marketing system as a new 'key' sector in economic development. This is, however, not the same as saying, that the status of the marketing system within development theory as well as practice should not be improved. Being the main economic coordination system in a dynamic economic process, it is essential to develop more comprehensive plans/programmes for the marketing system and link these plans with production and use/consumption plans. We shall briefly look at some of the tools and procedures to follow as well as the administrative apparatus necessary to assure, that the marketing system avoids being a stumbling block in the economic development process.

7.1. Drawing Marketing Maps.

As already stated in section 4, the basis for the marketing planning is the overall development strategy, interpreted in terms of change and/or increase in division of labour. From this interpretation, we can draw the overall marketing map of the country - the envisioned marketing system, and by comparing it with the present marketing system, the necessary changes appear.

The marketing map is defined as 'the set of distribution channels',¹¹⁾ necessary to coordinate the economy, i.e. to 'link' what division of labour has 'parted'. The map includes of course also the distribution channels, linking the outside world with the developing country. By comparing the present marketing map with the one envisioned, according to the development plan, the need to establish new channels as well as unwind or change old ones will show up. For example, a rural development strategy involves the simultaneous and coordinated development of three channels of distribution, linking

the rural areas with the outer world, namely a channel for inputs, a channel for produce, and a channel for consumer goods. Which of the three needs most attention, depends on "the structure and behaviour of the peasant" and "the strength of the various economic groupings", two issues we shall return to in the next section.

Having defined the 'set of distribution channels' and their relative importance, the next step is to get data, which defines their functions, capacity, and institutional set-up.

The functions and capacity of the channel can be specified by using the 4 P-formula as the basis:

1. PRODUCT, i.e. the characteristics of the products, moving through the channel, including varieties and new products to come.
2. PRICE, including credit and other conditions of payment.
3. PROMOTION, i.e. the information flow, including persuasive means, needed to match supply and demand in the short as well as the long run.
4. PLACE, i.e. the quantities moved, the need for storage space and transport facilities, the dispersion of producers and users as well as the distance between them.

A special section must be devoted to product innovation, because successful product development as well as the introduction of the novelties involve producer-user contacts much closer than is the case of 'ordinary' distribution. In fact, it is in these two activities, that the well developed marketing system can be distinguished from the poor one, and this is especially true in a development situation as development means introducing a whole new array of products.¹²⁾

The outcome of this fact finding "mission" around the four P's is a set of data, which can be used to make up

an investment plan, divided into two main parts: A sub-plan for investments in infrastructure and a sub-plan for institutional investments. The latter, however, cannot be finalized before the institutional set-up has been decided upon. We shall deal with this tricky decision in the section to come.

7.2. Establishing a Profile of the Users of the Marketing System.

As already stated, the marketing institutions are the nexus of marketing functions and the social forces at work in society.

To choose or design appropriate marketing systems, we must commence with an analysis of the marketing system or better the users of specific marketing channels. The outcome of this analysis is a set of 'profiles of users', depicting their psychology, the social setting, in which they produce/use, their economic and political position as well as their capacity to change and ability to resist changes, individually as well as a group.

In congruence with traditional marketing thinking, the development of these profiles can, with some modifications, depart from 'the marketing concept' or the 'societal marketing concept'.

'The marketing concept' was developed to serve the needs of the business firm, but later broadened to encompass any institution with something to offer to a larger audience as well as institutions with long term interests in society, making them interested in social welfare. The approach is predominantly oriented towards the single consumer/buyer and although this is a good starting point, whereby people embedded in concepts like peasantry, informal sector etc. are not made into unpersonalized masses which can be manipulated it is not enough. Development is not just a question of the psychology of

individuals, but of changing social and economic networks.

The approach departs from needs, wants, values, and interests of the consumers, in our case the needs, wants, values, and interests of the users of the marketing system, e.g. the peasants or urban consumers

Having described the consumers, 'the target audience', in these terms, the next step following the 'marketing concept' is to develop products, which fulfill the needs of the consumers. In our case, develop marketing institutions, which suits the direct users of the system, i.e. producers and buyers/consumers.

The same products must also fulfil the goals of the producers (originally the business firm), e.g. a profit goal. In our case, this will have to be interpreted as the goals of powerful classes and in case these powerful classes control the marketing institutions, it becomes the very goals of these institutions.

The direct users, e.g. peasants in the one end of the channel and urban consumers in the other, are relatively easy to identify.

This is not the case with the dominant class or classes. Economic development means a transformation of economic structures, but it also involves a change in the political power structure, making it difficult to identify the stronger groups. It may be the producers themselves but it may also be a group outside the direct users of the marketing system, e.g. a state bureaucracy or the military. Only a specific analysis will reveal who and the extent of their power and thereby ability to control the marketing institutions.

To illustrate the reasoning, we can take rural development in Tanzania. Rural development in the sense of integrating the rural areas in the wider economy, requires

as mentioned earlier the simultaneous and coordinated development of three distribution channels: A channel for inputs, a channel for produce, and a channel for consumer goods. The design of these channels depends on how the rural system works at present. We will, therefore, have to develop a 'profile of the peasantry'. In the case of Tanzania several researchers have done that, but two complications exist.

The first complication is that the theories of rural development often do not relate explicitly to the marketing system and they are therefore difficult to translate into marketing terms.

The second complication is that there is no unanimous agreement as to how to view the peasants. Several theories of the same peasant economy exist side by side. Some of these differences between the theories might be explained by the fact that the different researchers have focused on different geographical cases. Mueller (1980) for example, in the case of Tanzania establishes a typology of four areas which are integrated in different degrees in the national economy. Others, however, claim that their theory is valid for the whole country. A review of the Tanzanian case gives at least three different profiles of the Tanzanian peasantry. In short they are:

The autonomous peasants (Hyden 1980), where the peasants are not and cannot be captured by the state and integrated into the wide economy, the peasants have a real exit option.

The captures peasants or subordinated peasants (Raikes 1982), where the peasants are bound to domestic and international markets for their reproduction and the rural

areas are characterized by social differentiation and led by progressive farmers.

The populist peasants (Kitching 1982). This is the official view of the peasants in Tanzania. It holds that pre-colonial values, especially those related to cooperation and egalitarianism, are embedded even in today's peasants and that rural development can be pursued by reestablishing these values. The progressive or to-become-capitalist farmers are curtailed and the middle peasant stratum is the spearhead of development.

It is obvious that the marketing system will look quite different in the three situations. The autonomous peasants cannot be 'forced' to participate in the wider economy. Emphasis will have to be put on the consumer goods channel, whereby the peasants can facilitate their reproduction, and marketing institutions at the peasant end of the production chain will have to have a large measure of peasant involvement and control.

The captured peasants are per definition dependent of the marketing system and by eliminating various alternatives, it is possible to 'force' peasants to a certain behavior. Typically, both the input channel and the produce channel are controlled, thereby assuring that certain farming techniques are used and a certain composition of crops is grown, e.g. one emphasizing export crops. The produce channel is also often made 'official'. i.e. produce can only be sold through certain channels. In short, peasants' dependency make them vulnerable for direction and exploitation.

The populist peasants develop by themselves - are self-reliant. The input and produce channels must be responsive to the demands of the middle peasants. This conflicts, however, with the simultaneous need to curtail the progressive farmers as it is necessary with powerful marketing institutions to control them.

Only such very general and vague conclusions can be made on the basis of present theories of peasants, and it is, therefore, necessary for marketing scholars to develop their own theories or profiles of the peasants, better adapted to the requirements of a marketing system, but not necessarily in better agreement with each other on how to view the peasants.

Such profiles must be made for all direct users of the specified channels as well as of the identified powerful classes.

These profiles define what can be done and what cannot be done, i.e. the social capacity to change and the forces which can be mobilized against a change. The profiles also define the overall role of a given channel, i.e. whether it should have an adaptive or dynamic role in development, and it advises on the marketing institutions, which are politically acceptable at the same time as being able to carry out the marketing functions effectively and efficiently.

7.3. The Planning and Administrative Set-up.

Where does this leave us planningwise? Using the well-known tripartite classification of national, sectorial/regional and project planning, the marketing system planning belongs to the national level, because it deals with coordination of the various economic sectors and regions.

The leading principle for the ministerial organization at the national level is not very different in developed and developing countries. Four social dimensions are reflected in the organization:

1. The concept of the nation state (Ministry of Defence, Ministry of Foreign Affairs etc.),
2. The notion of private versus collective issues (Ministry of Public Works, Ministry of Education),

3. The notion of productive versus reproductive issues (Ministry of Agriculture versus Ministry of Education, for example),
4. The notion of productive versus infrastructure (Ministry of Agriculture versus Ministry of Public Works with the Ministry of Trade somewhere inbetween).

It is not easy to find a place for 'a marketing system development unit' in this set-up. Marketing aspects enter many ministries.

Traditionally, marketing is equalized with trade and consequently we should establish our "marketing system planning unit" within the Ministry of Trade.

On the other hand as we have broadened our view of marketing, we might look untraditionally upon the marketing system and define it as part of the economic infrastructure. The economic infrastructure is considered to be outside the "productive sectors" and has the role of facilitating the flow of goods, people, information etc. between the economic sectors. As the marketing system is part of the economic coordination system, we might view the system as having the same facilitating role and consequently establish our planning unit in the Ministry responsible for the development of the economic infrastructure.

We might also say, that marketing system development, by virtue of its coordination tasks, is part of the Ministry of Planning and Finance. This ministry performs coordination functions already, although calculating primarily in money terms. To plan marketing systems the ministry will, therefore, have to be augmented with a new unit.

Finally, what about a Ministry of Marketing System's Development, responsible for

- a. calculating institutional as well as functional and

financial consequences of various development strategies.

- b. drawing marketing maps, when a development strategy has been chosen, i.e. point out the major channels to be established.
- c. developing profiles of users of the marketing system and propose marketing institutions to be established.
- d. convert b and c into projects and establish an investment plan.

Perhaps a Ministry is not needed. A special section - The Marketing System's Planning Unit - could be established under the Ministry of Planning and Finance or similar economic coordination ministries.

The choice is not easy, and it is made even more complicated, considering that a planning unit itself is a marketing institution and its position in the ministerial set-up is, therefore, itself a political question.

8. Summary

The aim of this paper was to establish a conceptual and theoretical framework which gives us an understanding of the role of the marketing system in economic development. The core concepts have been "the marketing institution", performing the marketing functions as well as being an object of political control, and "division of labour", an increase in which is essential for economic growth at the same time as giving the marketing system a more prominent role in society, i.e. the role of "linking" what division of of labour has "parted".

The role were analysed at three levels - the institutional, the factors of production, and the functional level.

The marketing institutions reflect the basic values in society, the power positions of various calsses as well as the marketing functions to be performed. The choice is made between three principal forms of institutions:

1. State institutions (for trading as well as administration)
2. Co-operative marketing institutions
3. Private enterprises.

At the second level, it is important to realize that economic development means transforming the economic structure and this again involves an increase in the division of labour and a restructuring of factors of production. The primary role of the marketing system in this transformation is adaptively and/or dynamic to "link" what division of labour "parts".

However, this is a too narrow view of the marketing system. The marketing system is more heavily involved in transforming the economic structure. At least the following three factors must be considered:

1. Commodities
2. Labour transfer
3. Surplus appropriation

The commodity factor can be subdivided in two. The traditional role of the marketing system is to funnel through in space, time and ownership, whatever commodities are produced. The marketing system comes here close to merely a system for physical distribution. In a development context, the question of what to produce is, however, much more basic and it is a major task of the marketing system to reveal new needs and demands and match them with new production.

The labour factor enters the marketing system by the fact, that the marketing system is used to 'channel' people, for example from the rural to the urban area, i.e. the marketing system is a stepping stone from one economic sector to another.

Finally, the marketing system might also be used to appropriate a surplus in one economic sector, e.g. in the rural areas, and transfer it to another. It is stressed that appropriation of surplus is necessary for the financing of economic development.

Whereas the commodity factor is not new to the marketing system, the two latter are rarely considered. They cannot, however be ignored and if they are, we loose much explanatory power as to the structure and the working of the marketing system.

A third level - the functional level - aim at coordinating the marketing functions (given the two former levels) and make the marketing system operate the most effective (goals-means) and efficient (cost-min.) way. This is done by manipulating four parameters, some of which might be restricted or even fixed according to level one and two. The four parameters are the well-known four P's;

1. Price
2. Product
3. Promotion
4. Place,

which in figure 2 have been given a marketing system's content, replacing the traditionally marketing management content.

The procedure to follow, when planning the development of the marketing system is, finally, summarized in figure 3.

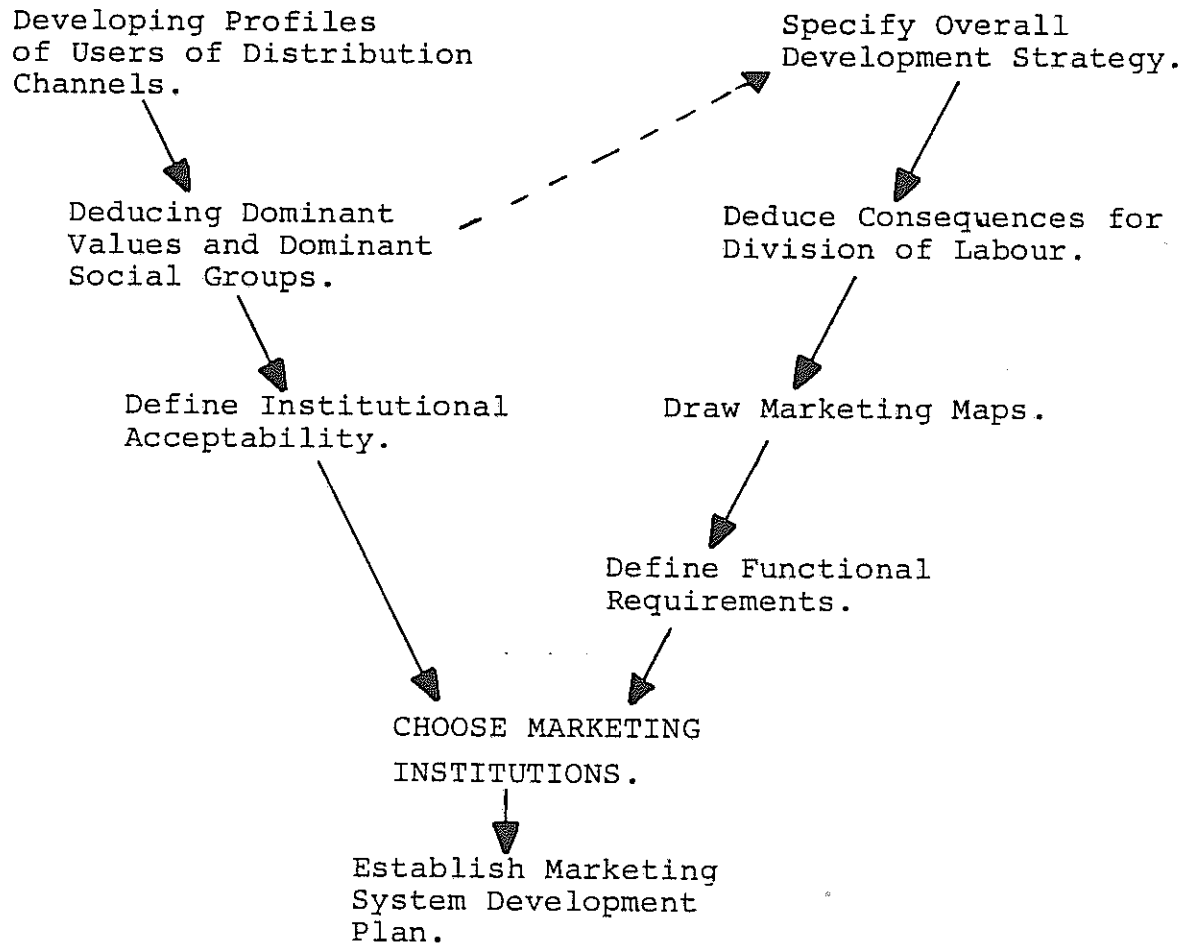
Figure 2. Marketing System in Development.

- | | |
|--|---|
| A. Institutional level (the basic values and power structure) | 1. State trading organizations.
2. Co-operatives.
3. Private enterprises. |
| B. Production factor level | 1. Commodities.
2. Surplus Appropriation (capital).
3. Labour Migration (people). |
| C. Functional level (coordination, effectiveness and efficiency) | 1. Pricing:
e.g. Market Pricing
Cost-Plus Pricing
Residual Pricing
Reconciliation Pricing.
2. Commodities: *)
1. Inputs (credit/loans, extension services, commodities)
2. Produce (food, export crops etc.)
3. Consumer goods, incl. collective goods.
3. Distribution channels **) 1. Rural Urban areas
2. Rural International markets
3. International Urban areas
4. Inter-Urban channels
5. Urban-Rural channels.
4. Economic Infrastructure.
1. Transport system (road, rail, water)
2. Storage system
3. Information system. |

*) only covering rural development

**) only covering the present major ones

Figure 3. The Marketing System Planning Formula.



Footnotes:

- 1) This is an oversimplification, but on the other hand, basic textbooks like Todaro 1982 and Killick 1981). are silent on major marketing issue. In fact the term marketing is not used at all, and if some marketing issues are treated (like economic infrastructure), they are not integrated theoretically with production issues.
- 2) Surplus extraction or transfer of economic resources is also essential to orthodox theories and development strategies, but it is not embedded into a "class struggle-analysis".
- 3) It seems that marketing institutions are more the focal point for control over surplus in developing countries than in developed market economics (Bates 1981, Ellis 1983). In the latter, other and perhaps more effective ways of controlling capital flows exist.
- 4) A social system consists of and might be defined as a network of institutions, economic, political, cultural etc. in nature. Marketing institutions, being primarily economic-political institutions, can be analysed from a number of perspectives. You might emphasize the goals of the marketing institutions (e.g. profit vs a fair distribution), the specific types of organization (e.g. private firms vs marketing cooperatives), the processes taking place (e.g. the physical flow, the allocation process), the resources required and controlled (e.g. capital vs labour intensiveness), and the values, norms, customs, laws etc. guiding the marketing institutions.
- 5) This, perhaps, explains, why co-operatives are so popular in developing countries. Co-operatives are 'soft ideology', i.e. they can hide capitalists or they can be run on socialist principles - and still be co-operatives (at least by name).
- 6) The exact direction and degree of the increase in division of labour in the various development theories and strategies need to be established in more detailed studies.
- 7) It is essential to point out, that Adam Smith did not think of transfer of technology. It is the domestic/local interplay of specialization and technological development that leads to economic growth and any transfer of technology must be incorporated into that process rather than dominate the process.
- 8) It should be stressed that it is only analytically, we can distinguish so clearly between an adaptive, a

dynamic and a third role, an efficiency role. In practice they are interwoven and in a continuous interaction with production and use/consumption.

- 9) The size of the market, measured in terms of purchasing capacity (income) increases, however, by this very process.
- 10) The most efficient marketing system in the sense of a system which renders the "owner" a normal profit is not necessarily the optimal system in a development context. As economic development requires resources to finance new projects, including resources to finance the development of the marketing system itself, it seems more optimal if we have a marketing system which can accumulate resources for investments in new projects.

Literature.

- Bates, Robert H. (1981): Markets and States in Tropical Africa. The Political Basis of Agricultural Policies. University of California Press, London.
- Bauer, P.T. and B.S. Yamey (1954): The Economics of Marketing Reform. The Journal of Political Economy, June 1954.
- Ellis, Frank (1983). Agricultural Marketing and Peasant-State Transfers in Tanzania. Journal of Peasant Studies, vol. 10, no. 4.
- Hyden, Goran (1980): Beyond Ujamaa in Tanzania. Underdevelopment and an Uncaptured Peasantry. Heinemann, London.
- Killick, Tony (1981): Policy Economics. A Textbook of Applied Economics on Developing Countries. Heinemann, London.
- Kitching, Gavin (1982): Development and Underdevelopment in Historical Perspective. Populism, Nationalism, and Industrialization. Open University Set Book. London.
- Marglin, Stephen A. (1978): What do Bosses do ? The Origins and Functions of Hierarchy in Capitalist Production. (In) The Division of Labour, ed. by André Gorz. The Harvester Press, Sussex, England.
- Moser, Caroline O.N. (1978): Informal Sector or Petty Commodity Production: Dualism or Dependency in Urban Development ? World Development, vol. 6, no. 9/10.
- Mueller, Susanne D. (1980): Retarded Capitalism in Tanzania. The Socialist Register, London.
- Preston, Lee E. (1968): The Commercial Sector and Economic Development. (In) Markets and Marketing in Developing Economies, ed. by Reed Moyer and Stanley C. Hollander, Irwin, Homewood, Illinois.

- Preston, Lee E. (1970): Marketing Organization and Economic Development: Structure, Products, and Management. (In) Vertical Marketing Systems, ed. by Louis P. Bucklin. Scott, Foresman and Company, Glenview, Illinois.
- Raikes, Philip (1982): The State and the Peasantry in Tanzania. (In) Rural Development. Theories of Peasant Economy and Agrarian Change, ed. by John Har-
riss, London.
- Schumpeter, Joseph A. (1954): History of Economic Analysis. Oxford University Press, New York.
- Sorensen, Olav Jull (1983a): Marketing Issues in Peasant Agricultural Development. Aalborg University Centre, Aalborg, Denmark.
- Sorensen, Olav Jull (1983b): Marketing Management in Developing Countries. Marknadsvetande (forthcoming).
- Todaro, Michael P. (1982): Economics for a Developing World. Logman, Essex, England.
- Williamson, O.E. (1975): Markets and Hierarchies: Analysis and Antitrust Implications. The Free Press, New York.

DEVELOPMENT RESEARCH SERIES
WORKING PAPERS:

- No. 1: *Olav Jull Sørensen*: Marketing Issues in Peasant Agricultural Development, 55 pp, 1983.
- No. 2: *Hans Gullestrup*: The Ecol-Humanistic Technology - the new Technology as Experiences from the Past, 33 pp, 1983.
- No. 3: *Georg Sørensen*: Transnationals and the Transfer of Technology to the Third World, 31 pp, 1984.
- No. 4: *Georg Sørensen*: International Bureaucracies and Aid: The Political Economic of the 'B-Share', 11 pp, 1984.
- No. 5: *Georg Sørensen*: Notes on Materialism and Boredom - Western Development Ideals, 12 pp, 1984.
- No. 6: *Olav Jull Sørensen*: Marketing Systems and Economic Development. An Institutional-Structural Approach, 41 pp, 1984.